

## Note for Minister on National Broadband Plan

REF #:	PER 00309-19	AUTHOR:	Brendan Ellison
TO:	Minister	OWNER:	Sub_PER Ministers Office
STATUS:	Review	REVIEWERS:	Robert Watt
PURPOSE:	Briefing	DECISION BY:	
DIVISION/OFFICE:	Expenditure Management, EU Policy and Audit		

### Action required

For information, in advance of meeting with Taoiseach

### Executive summary

Attached is a briefing note on the National Broadband Plan procurement, for the Minister's attention in preparation for his meeting with the Taoiseach.

### Comments

**Robert Watt** - 01/04/2019 13:50

Minister, We strongly recommend against this plan on grounds of cost, affordability, value for money and risk. In relation to value for money we do not believe that [REDACTED] CBA has been undertaken - the justification for spending €3 billion on broadband has not been presented and we believe that this involves excessive costs and risks for the Irish taxpayer with questionable benefits. Incremental improvements in broadband based on NDP investment are more affordable and sustainable from a risk perspective. This alternative course of action should be pursued and the procurement process cancelled.  
Robert

### Detailed information

Briefing note attached

Submission PER-00309-19 – Note for Minister on National Broadband Plan

<b>To:</b> Minister	<b>Author:</b> Brendan Ellison
<b>Status:</b> For Review by Minister	<b>Owner:</b> Sub_PER Ministers Office
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<b>Decision By:</b>	

**Minister's Comments:**

Thanks. used in meetings  
with SG Watt and  
in discussions with Taoiseach.

P. D

4/4

## Related submissions

There are no related submissions.

## User details

INVOLVED: Brendan Ellison	READ RECEIPT: Brendan Ellison
Sub_PER Sec Gen Office	Robert Watt
Robert Watt	Helena Quane
Sub_PER Ministers Office	
Minister Donohoe	

## Action log

ACTION	DESCRIPTION	USER	DATE
Create	Submission PER 00309-19 to Minister created.	Brendan Ellison	01/04/2019 13:34
Submit for review	Submission sent for review to Secretary General.	Brendan Ellison	01/04/2019 13:35
Submit for review	Submission sent for review to Minister on behalf of Secretary General.	Robert Watt	01/04/2019 13:50



services). A decision on the NBP should not be made in isolation from these other requirements.

### Detailed Cost Implications

The following is the latest position in relation to the cost of the current NBP project, and the impact it would have on the existing investment plans within the NDP:

Subsidy Profile (€m)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029 to 2043	Total
Projected Subsidy												
Conditional Subsidy												
Contingent Subsidy (Encroachment)												
<b>Total Exch Cost</b>	<b>29</b>	<b>199</b>	<b>276</b>	<b>302</b>	<b>387</b>	<b>365</b>	<b>396</b>	<b>320</b>	<b>86</b>	<b>82</b>	<b>538</b>	<b>2,980</b>
<i>Original NDP Provision</i>	75	75	75	90	90	90	91.5	91.5	91.5	0	0	770
Reprofiled NDP (reflecting 2019 underspend and permitted carryover)	29	103	75	90	93	95	95	95	95	0	0	770
<b>Additional Funding requirement:</b>												
<b>Over 2019-2023</b>	<b>0</b>	<b>96</b>	<b>201</b>	<b>212</b>	<b>294</b>							<b>803</b>
<b>Over NDP period (to 2027)</b>	<b>0</b>	<b>96</b>	<b>201</b>	<b>212</b>	<b>294</b>	<b>270</b>	<b>301</b>	<b>225</b>	<b>-9</b>			<b>1,590</b>
<b>Over lifetime of Contract</b>	<b>0</b>	<b>96</b>	<b>201</b>	<b>212</b>	<b>294</b>	<b>270</b>	<b>301</b>	<b>225</b>	<b>-9</b>	<b>82</b>	<b>538</b>	<b>2,210</b>

If the Government decides to proceed with the procurement, it is estimated that **at least an additional ██████ would have to be found to fund the project over the next five years - €800m if the contingency costs are drawn down.** From the perspectives of sustainable management of the public finances and avoiding further stimulation of construction sector inflation, **it is not considered that public capital investment be expanded by more than the rate already envisaged in the NDP.** We have already seen the rapid re-emergence of tender price inflation and the existing capital envelope already involves consistent increases in capital investment annually over the period of the Plan.

**In the absence of additional further revenue raising measures, this level of increased expenditure on broadband would displace other capital expenditure priorities and would negatively impact on funding available, for example, for housing, health and climate action.** Given that the benefits of broadband are widely dispersed among a number of sectors within the economy and the potential overall cost of the project (€3b including VAT, if all contingences are drawn down), it would seem that a contribution to the costs would be required from the capital budgets of other Departments. Recent experience in trying to find additional capital for the overrun on the Children's Hospital within the existing capital budget highlights how difficult a task this is.

## Potential Options to reduce cost of current procurement in initial years

DCCAIE have advanced some proposals in terms of (i) deferring some elements of the roll-out to years 5+ and (ii) suggesting some additional sources of funding to meet some of the increased costs. These are set out in table 2 below. However, there are already some doubts over the potential realisation of some of these additional receipts.

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029 to 2043	Net Total
Total potential reductions:	-2	-34	-71	-66.7	-29.7	-22.7	-3.7	9.3	-7.7	-7.7	-63.1	-299
<b>Reduced Additional Funding requirement over NDP Allocations if all above potential measures adopted:</b>												
<b>Over 2019-2023</b>		62	130	145	264							602
<b>Over remaining NDP period (to 2027)</b>		62	130	145	264	247	297	234	-17			1,364
<b>Over lifetime of Contract</b>		62	130	145	264	247	297	234	-17	74	475	1,913

However, even if these additional measures were available, the additional funding required is still significant - €600m over 2020-2023, and €1.36b over the full NDP period.

In light of the above and given the passage of time since the NBP was devised (2012) it is recommended that the current procurement process is not proceeded with and that the NBP be reviewed in light of developments since then (including the requirement to develop a national Strategy on 5G, technological developments, increased commercial roll out of broadband etc). In this context, it is timely that there would be a further public consultation process as well as engagement with the commercial providers/market. The review would facilitate a more manageable roll out of broadband in line with the existing provision in the National Development Plan and having regard to what is affordable, while also giving the State more control over the process.

### Alternative Approach

Following on from a high level contingency options review last year, DCCAIE have produced an 'alternative options' paper, based on months of expert research and analysis. Three alternative options have been set out, of which Option 2 represents a viable alternative approach that would enable reasonable progress to be made on delivering rural broadband, on a phased basis, within an affordable budget, delivering real results in the short-medium term while also providing time for a more fundamental review of issues such as the ownership model, capacity to integrate with the most recent plans of other existing operators, etc.

**This affordability option would involve:**

- An immediate procurement by DCCAE (also involving OGCI0 and DRCD) of a company to deliver high speed broadband to circa 300 broadband connection points (BCPs) within two years and circa 1000 locations within four years.
- Some of these BCPs would provide office-like facilities for activities such as remote working. The BCPs would be made available at these locations for a 10 year period.
- In addition, DCCAE would commence tender processes to procure the most extensive broadband coverage nationally that the budget would support, including the design and build of the network and a separate contract for the operation and maintenance of the broadband network once it is built.
- the establishment of a new broadband agency/office (within DCCAE initially), to be responsible for the revised delivery of the NBP. An in-house structure could be established relatively quickly retaining and utilising expertise built up to date in the process (in a similar manner to the establishment of the LDA), to immediately begin work on a revised plan to deliver high speed broadband to the 300 BCPs and circa 1000 locations identified as quickly as possible.
- Exploring how best to exploit assets and plans that eir, ESB and Imagine already have, in a 'greenfield' policy space.
- Further exploring the options that 5G will offer, to complement fibre to the home in very remote areas. Fibre should only be part of an overall digital connectivity programme which includes 5G and TETRA LTE and which are threatened together to maximise impact and VFM.
- Revisiting the "gap funding" approach / private sector ownership model – which we understand was largely driven by the (unsuccessful) objective of keeping the project off balance sheet.

### Examples of the Potential Impact of a €1b reallocation of NDP Funding

Assuming a scenario whereby the impact of any reallocation would chiefly be felt in the five Departments which account for about 80% of capital spend, the potential impact on the NDP of a reallocation of €1b is illustrated in the scenarios below:

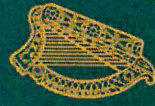
- The Department of Housing accounts for about 30% of total capital spend. A pro-rata reallocation would mean a reduction of €300m for D/Housing – equating to cancelling the delivery of about 1,500 local authority direct-build social housing units.
- The Department of Transport accounts for about 20% of the total. A pro-rata reduction of €200m equates to the entire allocation for regional road restoration improvements last year.
- The Department of Education and Skills accounts for 13% of the total. A pro-rata reduction of €130m equates to cancelling the delivery of 26 primary schools serving 12,500 pupils including ASD units.
- The Department of Health accounts for 9% of spend. A pro-rata reduction of €90m equates to cancelling about eight primary care centres.
- DBEI accounts for 8.5% of the total. A pro-rata reduction of €85m equates to cancelling the annual capital allocation for Enterprise Ireland and Local Enterprise Development.

To illustrate this further, the impact of a €1 billion re-allocation could involve a scenario such as:

- Reduce local authority direct build social housing delivery by 1,500 units (**€300m**) **AND**
- Cancel the delivery of the Tralee Wastewater Network (**€23m**) and the Kilkenny Regional Water Supply Scheme (**€21m**) **AND**
- Cancel the Sligo Western Distributor Road (**€18m**), Killaloe Bypass (**€34m**), Dunkettle Interchange (**€100m**) and Moycullen Bypass (**€52m**) **AND**
- Cancel planned Exchequer investments in Dundalk, Tallaght and Limerick IoTs (**€40m**) **AND**
- Cancel delivery of 18 primary schools serving 8,600 pupils (**€90m**) **AND**
- Cancel delivery of new ambulance bases and deployment points (**€39m**) **AND**
- Cancel delivery of 4 to 5 primary care centres (**€50m**) **AND**
- Suspend capital supports for domestic and local enterprises for one year (**€85m**) **AND**
- Find a further **€148m** from remaining programmes, including flood relief works, prisons, etc.

It is to be noted that the capital expenditure outlined above is to be delivered by Government as there is little or no interest from the private sector in providing these services (other than perhaps under PPP-type arrangements). In contrast, there is significant commercial investment in the provision of high speed broadband and this is constantly expanding.





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# National Broadband Plan

## Concerns and Risks

April 2019



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## Context

- D/PER has repeatedly expressed serious concerns in relation to the current NBP project on the basis of:
  - Project Rationale
  - Overestimated Project Benefits
  - Cost / Affordability
  - Displacement impact on other planned investments under the NDP
  - [REDACTED]
  - Unprecedented risk for the State – and risk transfer from private sector to the State
  - Governance issues.
- The recent PWC report on the National Children's Hospital was very critical of the management of major infrastructural projects. The Government committed to learning from the mistakes made on the NCH, in advance of other major projects like Metro and the National Broadband Plan.



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## Cost

- Significant increase in estimated State subsidy: from €800m (September 2017) to [REDACTED] including VAT (April 2019).
- Potential for additional contingencies to increase this to €2.98b.
- Additional €800m State funding requirement 2019-23; €1.6b over the full NDP period.
- Now clear that building fibre to home on this basis is unaffordable, given our spatial structure.
- What other Country has delivered this goal?



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## Cost Implications - Capex Displacement

- Quantum of State subsidy now required for backhaul infrastructure and connection subsidies necessitates very significant displacement / cancellation of other planned NDP capital investment.
- This means the delay or cancellation of investment in schools, health, roads, public transport, etc.
- *This is in addition to the capital funding pressures already caused by the NCH and arising from new targets proposed in the draft new All of Government Plan on Climate Disruption.*



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## Benefits

- 'Leap of Faith' required in terms of Benefits for Projected Cost – the benefits do not justify the proposed level of investment.
- Issues with CBA – in terms of consistency with Public Spending Code requirements.
- Major subsidization of private benefits at taxpayers' expense
- Must question economics of a €100 connection fee towards a cost of connection of up to €5,000 – does this apply for electricity, water or gas connections?
- Case to be made for providing infrastructure, but 'connecting' is a private matter.
- Emerging technologies and future developments could render this investment obsolete – unprecedented risk for the State.



## Risks

- Current plan features a number of inherent risks / threats:
  - Emerging technologies over 25 year period (5G, etc.)
  - Recent announcements by commercial operators (eir, Imagine, etc.)
  - Ability of final bidder to deliver
  - Heavy reliance on eir's existing network
  - Risk of insufficient consumer take-up v projected targets
  - Risk that operator could abandon the project – they have [REDACTED] capital at risk (v State's €3 billion).
  - Long term risk transfer concerns – private operator's capital effectively recovered by [REDACTED]



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## Risks - continued

- Risks to the economy and to VFM if capital envelopes are increased to accommodate additional capital spending.
- Wider reputational risk to State via diminished perception of economic competency.
- Risk of massive connection costs for services that will never be fully used



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## Public v Private Sharing of Risks / profits

- Exchequer risking €3 billion of investment over 25 years
- Private operator risking [REDACTED]
- Private investment will be fully recouped (dividends + interest) by [REDACTED]
- No real private risk beyond [REDACTED] – long term commitment to the project?
- Long term rate of return to private operator is [REDACTED] - hardly reflective of the [REDACTED] risk being borne
- Private operator also entitled to [REDACTED] of any excess profits – despite [REDACTED] risk.





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## Governance Concerns

- **Business Case:** Significant private benefits at taxpayer's expense.
- **CBA Analysis:** CBA not credible.
- **Lack of Competition:** Only one bidder left. No competitive tension.
- **Reputational Damage:** [REDACTED]
- **Risk Transfer:** Private investor fully compensated before [REDACTED]
- **Administration of Contract:** Contract extremely complex. Question marks over State's ability to monitor and enforce compliance on charging, clawback of cost savings, profit sharing, etc.



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## Alternatives

- D/PER believes that alternative strategies can still deliver significant broadband progress for Government on an affordable basis.
- Realistic and affordable budget: c. €1b.
- Prioritise short term rollout of broadband infrastructure to key sites – connection to households is a matter for households and service providers.
- Allows for NBP to be reviewed in context of emerging technologies, commercial investment, etc.
- Also facilitates clarity on full cost of wider Government's connectivity commitments including providing geographical coverage for 5G (ComReg estimate [REDACTED]) and TETRA (for blue light services).